FARMERS' COOPERATIVES *In Our Community*

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The Cooperative Research and Service Division conducts research studies and service activities relating to problems of management, organization, policies, merchandising, sales, costs, competition, and membership arising in connection with the cooperative marketing of agricultural products and the cooperative purchase of farm supplies and services; publishes the results of such studies, confers and advises with officials of farmers' cooperative associations; and cooperates with educational agencies, cooperative associations, and others in the dissemination of information relating to cooperative principles and practices.

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FARMERS' COOPERATIVES IN OUR COMMUNITY

AN OUTLINE FOR CLASSES AND DISCUSSION GROUPS

INTRODUCTION

This publication has been prepared especially for young farmers and for the young people now in school who plan to some day own and operate a farm. For the most part, it is a description of the way in which farmers' cooperatives have developed in a typical rural community which we call Our Community and Ourtown. You may find conditions in your community and your town slightly different in some details, but for the most part the same principles will apply as in Our Community and Ourtown.

As you might imagine, most of the people in Our Community live on the land. Ourtown is the center of this farming area. When you drive along our north-south and east-west highways, you see farms and farm buildings on both sides. Other farms are up the country roads that tourists almost never find. For the most part, Our Community farmers have good land and good buildings.

Our farms, along with the other farms and ranches in the United States, produce most of our food, as well as the wool and cotton from which much of our clothing is made. They also raise some mighty fine citizens, who learn early why work is necessary and how much more people can get done when they work together.

Young farmers shown here were on a visit to a cooperative to see if they could pick up any ideas to apply to their own better-farming plans.

Ourtown is the trading hub of the community. Along Main Street are stores as modern as many in large cities. Above and below the railroad depot there are stores where farmers buy fertilizer, feed, fencing, and other supplies. Here also are warehouses, fruit packing plants, grain elevators, and livestock yards. This is the part of town where farm products are delivered and assembled into truck shipments or carloads for transfer to more distant markets. It is a busy district and most of our citizens recognize its importance. There would be far less money in our banks, our stores would not look so modern, and there would be fewer automobiles on the street if this section of Ourtown should go out of business.

Some of the plants and warehouses in this section are owned by farmers. People in Ourtown call them "the co-ops." Most of them have been organized since 1920. Many people still don't know what they are or what they mean to American farmers.

What are they? Why were they formed? What do they do?

The answers to these questions grow into an interesting story of the way in which farmers have adapted to their needs our American system of free enterprise.

Farmers' cooperatives are formed to increase the farm income of their members. Many have been successful; others have failed. Often farmers have built strong co-ops by profiting from the mistakes of earlier attempts. The present growth has been attained only by the careful planning, persistence, and hard work of thousands of farm people.

Co-ops are important in Our Community and throughout the United States. All of us, whether we live on a farm or in a city, should know something about them.

CHAPTER I

CHARACTERISTICS OF A FARMERS' COOPERATIVE

Who owns a farmers' cooperative? Near the Ourtown freight station there is a supply store and warehouse with a sign on it which reads, "Our Community Cooperative Warehouse." The farmers who are members of Our Community Cooperative Warehouse own this business. They hire Bill Smith to run it. He is the manager, but Bill reports to a board of seven directors who were elected by farmer-members of the co-op and who are themselves farmers and members.

About two blocks away from the co-op is the Central Supply Co., which is owned by Jim Jones. From the outside, Jim's place of business looks about the same as that of the co-op - perhaps it is not quite so large. But inside both you will find bags of feed and fertilizer, seed, fencing, and paint. Both have gasoline pumps in front and feed mixing machinery in the warehouse.

The farmers who buy supplies through the co-op own the business. The farmers who buy from the Central Supply Co., do not own the business. Jim Jones owns it.

This is an important difference. There were two main reasons why the farmers organized the Supply Co-op. First, they were dissatisfied with the kind of field seeds and dairy feed local dealers were able to obtain; second, they believed that the difference (margin) between the dealers' prices and the prices at which supplies could be bought at wholesale was too great. Either the local dealers' costs of doing business were too high, or they were making too large a profit.

The farmer-owners see to it that Bill Smith, the manager, handles the kind of supplies they want. Also, the farmer-owners naturally are interested in having their co-op do business at cost.

Jim Jones, on the other hand, naturally runs the Central Supply Co., to make a profit. Of course, he tries to satisfy his customers but in ordering supplies he has to consider what kinds will be most profitable.

Control of a farmers' cooperative. Because the farmers own the co-op they also control it for the same reason that Jim Jones controls the Central Supply Co.

The members (the farmer-owners) elect seven fellow members directors of the co-op. One of these men is selected as president. This board of directors hired Bill Smith as manager. He is responsible for the operation of the business, but the directors determine the plans and policies under which the business will be conducted.

In the election of directors, each member of Our Community Cooperative Warehouse has only one vote. In a few co-ops a member whose business is the largest may have the most votes, but in Our Community we stick to the one-man one-vote principle.

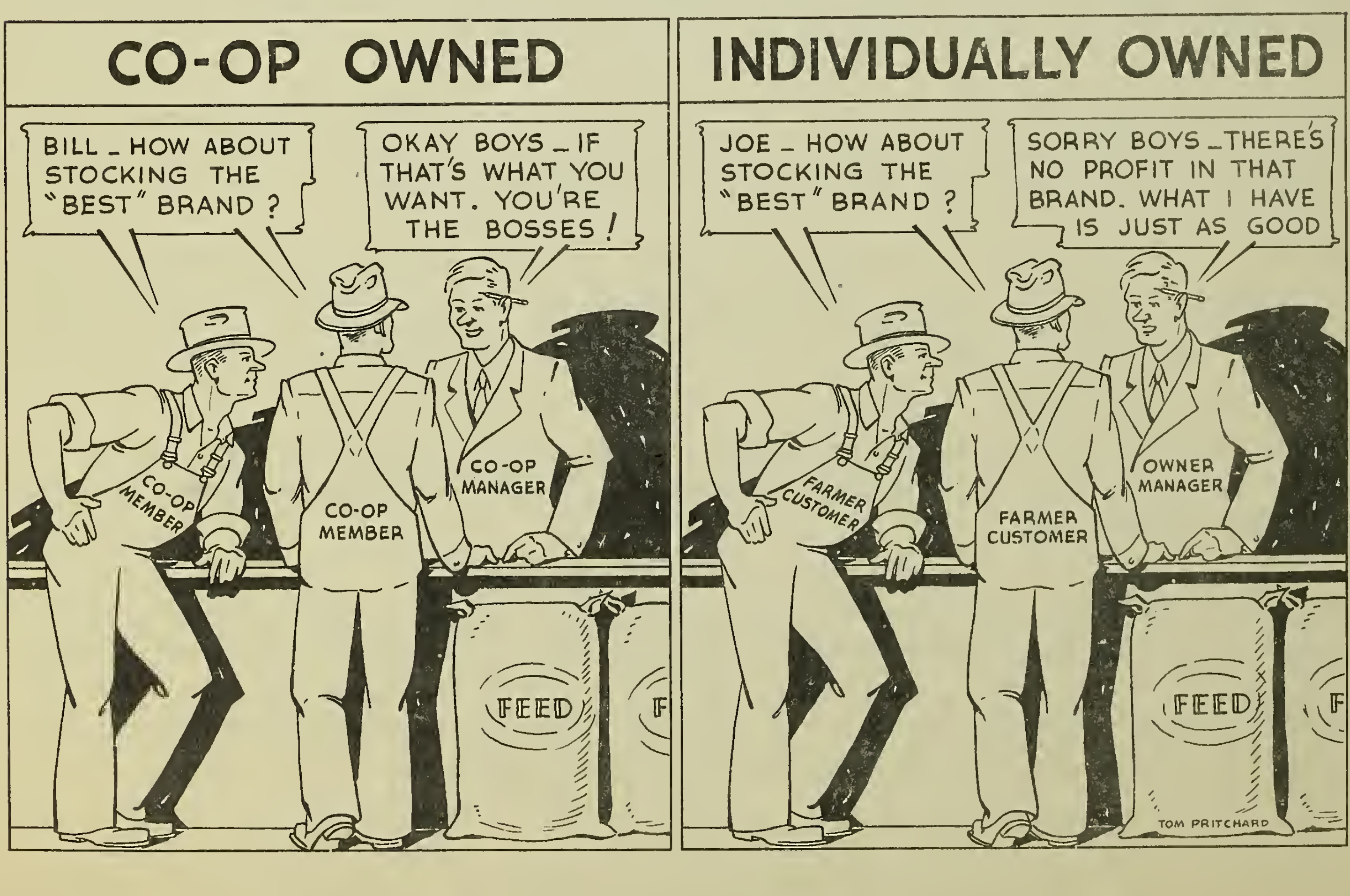
The members control the co-op. They have one vote each and elect directors just as we elect county, State, or Federal officials.

Jim Jones controls the Central Supply Co., because his money is invested in it; he owns it. He is not controlled by a farmer board of directors as Bill Smith is.

If the Central Supply Co., were a corporation, it would be owned by its stockholders. In a non-cooperative corporation, ownership is represented by shares of stock. One man may own 10 shares, another 100, and so on. Each stockholder has one vote for each share of common (voting) stock he owns.

In a non-cooperative corporation, voting rights are in proportion to the number of shares of voting stock owned by each stockholder. In a cooperative, which is also a corporation, voting rights are usually based on membership or, in a few cases, are in proportion to the volume of business a member has done with the co-op.

How cooperative savings are distributed. Co-ops are called non-profit organizations. A co-op marketing wheat, cotton, or milk, or buying feed or fertilizer usually saves money for its members. These savings are



distributed as a rule at the end of the business year or the end of the marketing season. They are not a profit to the co-op because they belong to the members, and every properly organized co-op is obligated to account to its members for them.

The way these savings are distributed is the most important difference between a co-op and a business run for private profit.

In a co-op, savings are distributed to members in proportion to the volume of business each one does through the co-op. The Our Community Cooperative Warehouse handled $100,000 worth of supplies its first year. Its savings for members, after all expenses were paid, was $5,000 which is 5 percent of $100,000. Therefore, the farmer who bought $1,000 worth of supplies through the co-op saved $50.

This money belongs to him. It may be paid to him in cash, or kept in the business temporarily to pay for buildings or machinery. It is not paid in cash, each member gets a "book credit" or certificate as evidence that he is a part owner of (has an equity in) the land, buildings, and other assets used in the cooperative business.

The earnings of the Central Supply Co. belong to Jim Jones. He may use his money to buy groceries, a new automobile, or a house, or he may keep it in the business to pay off the mortgage on his warehouse, or to buy a new feed grinder.

In a non-cooperative corporation, earnings are paid to stockholders in proportion to the number of shares each one owns even though they may do no business with the corporation. The man who owns 100 shares of stock gets 10 times as much as the man who owns 10 shares.

Cooperation played an important part in this symposium of Utah and California young farmers at the National Convention of American Vocational Association, Los Angeles.

In a cooperative corporation, savings are paid or credited to members in proportion to their patronage. In a private-profit business, earnings usually are distributed to stockholders (or partners) in proportion to the number of dollars each one has invested in the business.

A farmers' cooperative is a business organization owned and controlled by farmers and operated for their mutual benefit as producers. Farmers join cooperatives to reduce the cost of supplies and to get more money for what they sell and thereby increase the incomes from their individual farms.

References: Fetrow, Ward W. Three Principles of Agricultural Cooperation. Farm Credit Administration Circular E-24. 8 pp. Washington, D. C. 1945. Nourse, E. G. The Philosophy of Co-operative Marketing. Pan American Union, Division of Agricultural Cooperation, Series on Cooperatives No. 1. 16 pp. Processed. Washington, D. C. 1936.

Project 1: There are several businesses in Ourtown, including cooperatives which market crops and livestock and handle supplies.

1. How many are owned by one man, how many are partnerships, how many non-cooperative corporations, how many are cooperatives?

2. What products or supplies does each one handle?

3. What services, such as grading vegetables, making butter, or ginning cotton, does each one give?

4. Where do they ship the products they sell? Where do they get their supplies?

Project 2: How many of the farmers you know are members of cooperatives? Why are they members? How many farmers you know are not members? Have they ever been members? Why are they not members now?

CHAPTER II

MANAGING FARMERS' COOPERATIVES

A business does not run itself. Somebody has to make plans and somebody has to carry them out.

On a farm the farmer plans his business - what crops he will plant, which fields he will use for wheat or potatoes and which will be fallow or in pasture. Likewise, Jim Jones plans the business of the Central Supply Co. He decides how much and what brands of feed and fertilizer he will order, what prices he will charge his customers, and whether he will sell for cash or on credit.

Like the average farmer, Jim Jones makes plans for his business and also sees that they are carried out. In his business, he is the policy-maker (the planner) and also the manager.

In a corporation, the board of directors are the policy-makers; the manager puts into effect the policies agreed upon by the board.

There is this important difference between a co-op and a non-cooperative corporation. The members of a co-op are the owners of the business and also the people for whom the co-op buys and sells. Their interest as patrons is generally greater than their interest as owners. For example, a member's sales of milk and cream through Our Community Creamery Association may be more than $200 a month. The amount he has invested in the co-op may be less than $200.

At any rate, he has a double interest in his co-op. A stockholder in a non-cooperative corporation has one interest, that of an investor.

As a result, members of farmers' cooperatives are more concerned about policies and management than are stockholders of the usual non-cooperative corporation. Their main concern is that the co-op shall perform efficiently and economically the services for which it was organized.

Duties of members. Our Community Creamery Association may be used as an example of a co-op whose members understand that they are fundamentally responsible for its management.

When the co-op was first organized, the members adopted its by-laws. The by-laws set forth their right to elect directors and to remove a director from office if he neglected his duties.

The members also specified in the by-laws that one-third of the board should be elected each year for a term of 3 years, and that no director could serve more than 2 consecutive terms.

They reserved the right to make any changes in the by-laws that might be needed in the future.

They required the directors to place employees handling money under bond, and also to have an audit of the books of the co-op made once a year by an accountant who was not a member or regular employee.

The members also provided in the by-laws that each member would have one vote and only one regardless of his investment in the association or the quantity of milk or cream he sold through it. They also decided that proxy voting would not be permitted. That is, a member could not authorize another member to cast his vote, but would have to be present in person in order to vote in meetings where directors were to be elected or other questions requiring a vote were to be considered.

Members elect a board of directors to represent them in planning and supervising the business of their co-op. The selection of good directors is the most important duty of the members.

Our Community Creamery Association has good directors because members realized that they were choosing men to run their business. "Select men you would be satisfied to have run your own farm," was the advice given at the first meeting, and that rule has been followed ever since.

A director should be a good businessman, a conscientious, faithful worker, and a man who practices cooperation and democracy. Members of the Our Community Creamery Association do not vote for a man as director because he is a friend or relative, or is specially well liked. They vote for a man they believe knows how to run a business and make it succeed.

The members at the first meeting also authorized the board of directors to build and equip a modern creamery. Each member agreed to invest in the capital of the co-op an amount equal to $10 for each milk cow owned by him.

Duties of directors. The directors exercise the corporate powers of the co-op. They have this authority, not as individuals, but only when they meet as a board of directors in a meeting called in accordance with the provisions of the by-laws. They have a moral and legal responsibility to use these powers to serve the best interests of the members whom they represent.

In general their duties are (1) to select a manager; (2) to agree on the policies of the co-op; (3) to check to see that these policies are followed; and (4) to determine the results obtained from policies adopted and make changes which may be necessary.

The board of directors of Our Community Creamery Association adopted five special rules:

1. No director would be hired as manager. A director should have no interest in his co-op other than that of a member.

2. The manager would have full responsibility for running the business in accordance with the policies laid down by the board.

3. The manager would hire, promote, and discharge all employees, and no close relatives of the directors or the manager would be employed.

4. The manager would be asked to report in detail on the progress of the business at each meeting of the board. His advice would be asked about changes in policy or new policies, but responsibility for changes would rest with the board.

5. Complete information about the business and progress of the co-op would be reported to members at least every 3 months.

The board then had to decide what general policies the new co-op should follow. They agreed that the co-op should become a member of a central marketing association. They also agreed they would undertake to improve the quality of butter manufactured and cream delivered by members so that a high percentage of the output would meet the requirements of the central's first-grade brand.

Building the plant and purchasing equipment required many meetings of directors. A committee of three was appointed to visit modern creameries and study the type of construction, equipment, and operating methods. The president and secretary were authorized to obtain a loan for additional money needed to build the plant and provide working capital.

At the same time thd directors undertook to find a manager for the business. Their requirements were high.

First, they wanted a man with first-class training and experience in the operation of a creamery. They wanted a good businessman familiar with cooperative practices and with an understanding of the problems of dairy farmers. An essential requirement was that the manager should be a man who would be a leader and maintain the confidence of the members.

The man finally selected as manager met these requirements to a greater degree than any of the others considered. He was a young man who was assistant manager of a large central plant, and was experienced in business as well as in the technical details of running a butter-making plant. Though his salary would be more than that of other applicants, the board believed that in the long run it would be economical to hire him.

Duties of the manager. The manager came to work about the time the plant was completed, and took over supervision of the installation of equipment. He hired a bookkeeper and had the records of the co-op brought up to date. He made plans for the collection of milk and cream and submitted them to the directors for approval. Before the plant was ready to operate, he hired a butter-maker and other plant employees.

The manager had an understanding with the board of directors that he would not, without board approval, make changes in general plans or changes in the plant costing more than $200. It was agreed also that board members would not interfere with the manager. They would not give

orders to employees or direct that changes be made in the plant or office. In this field the manager was to be boss.

Good management requires that the manager shall be fully responsible for running the business. The ideas of the board of directors may be presented to him as suggestions which he can accept or reject. Likewise, the manager may and should advise the board regarding general plans or policies he believes would benefit the co-op and its members. After considering the suggestions of the manager in a formal meeting, the board of directors may accept or reject them as seems best in their judgment.

Although the board of directors of the Our Community Creamery Association had full authority for all the actions they had taken up to the time the co-op was ready to operate, they considered it advisable to call the members together at that time. This meeting was advertised as an opportunity for members, their families, and friends to visit the new plant. The president and manager reported in detail what had been done and the plans made for operating the plant. Thus all members had a chance to ask questions and to offer any suggestions they thought would improve the services of the co-op.

Members benefit from good management and suffer losses if the management is poor. They should be given full information and have an opportunity to review the actions of their directors. The interest of the members and the complete reports given them by the directors and manager have made Our Community Creamery Association a strong, progressive co-op.

References: Gardner, Kelsey B. Managing Farmers' Cooperatives. Farm Credit Administration Circular E-21. 13 pp. Washington, D. C. 1939. Garner, C. G. Making Co-ops Succeed. Georgia Agricultural College Extension Bulletin 498, rev. 16 pp. Athens, Ga. 1944. Henning, George F., and Mann, L. B. Relationships Between Cooperative Organizations Serving Farmers in Five Ohio Counties. Ohio Agricultural Experiment Station Bulletin 660. 43 pp. Wooster, Ohio. 1946. MacDonald, D. L. Guide for Organizing and Operating Junior Farmer Cooperatives. 51 pp. American Institute of Cooperation, Washington, D. C. 1946.

Project: Management of Our Community Co-ops.

1. How many directors has each co-op and what is the term for which they are elected?

2. What do directors consider their duties and what do they consider the duties of the manager?

3. What do the managers consider their duties and what do they regard as the duties of the directors?

4. How do directors and managers keep members informed about the co-op and its business?

CHAPTER III

WHY FARMERS ORGANIZE AND SUPPORT CO-OPS

In 1946, there were more than 10,000 farmers' marketing and purchasing cooperatives in the United States. Their total business exceeded $6 billion. This co-op business has grown up in the last 80 years, much of it since 1920.

All over the United States farmers organize and support co-ops. Why do they do it?

Why was the creamery co-op organized? Near Ourtown, out near the town limits, there is a plant owned by dairy farmers. It makes butter and ice cream and is called Our Community Creamery Association. If we can find out why the dairy farmers formed this co-op creamery, it should give us some idea why co-ops have become such an important factor in American Agriculture.

John Betterton is president of the Co-op Creamery. He is one of the best farmers in the county and an old-time cooperator. John says that when a farmer drives out of his front gate with a few cans of milk he is one man bargaining with professional traders and marketing agencies who have experience, information, and money the farmer cannot have. "It's like a boy going hunting with a pea shooter" is the way John puts it.

Our dairy farmers formed Our Community Creamery Association for three reasons according to its president:

1. The price they got for milk and cream was unsatisfactory.

2. Many farmers questioned the old creamery's tests for butter fat, claiming they were always several points too low.

3. The old creamery would be accused of discrimination if the farmer who delivered sweet cream to the creamery three times a week was paid more than the man who brought in sour cream every 10 days. As a result, the butter made was poor and it sold near the bottom of the market. The farmers believed that improvement in the quality of the butter would give them more money for their milk and cream.

They had to organize the co-op creamery to get these things done.

In what market does the farmer sell? Let us take wheat as an example. Farmers sell wheat to local dealers, usually to local elevators. It is shipped to other dealers located in larger cities, in the so-called terminal markets. There wheat is assembled, stored, graded, and shipped to millers. The flour in turn is sold and shipped to wholesale grocers and bakers and appears as flour and bread in retail grocery stores. Many items of cost - freight, handling, storage, and manufacturing charges and commissions - are added from the time wheat leaves the farmers' hands until it reaches the person (the consumer) who finally uses the bread or flour made from that wheat.

The farmer sells in the producers' market. The wheat is assembled and resold in the terminal (wholesale) market. Then it is bought by the people who eat it in retail stores, that is, in the retail market.

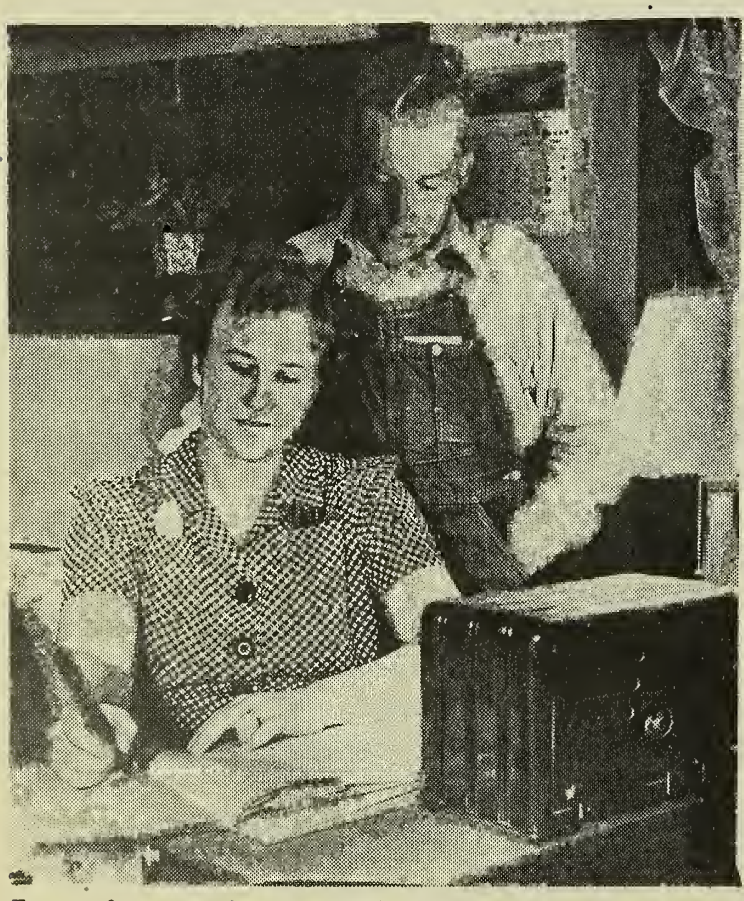
Because of the added costs, the price of farm products is always lowest in the country market and highest in the retail market.

Many local grain co-ops (farmers' elevators) have become members of regional grain cooperatives which perform the service of assembling, storing, grading, and selling grain at the terminal markets.

Thus farmers who are members of these co-ops carry their products farther along the road to the consumer.

There are two main advantages in doing this: (1) since more of the job of marketing is done at cost, what the farmer is paid for his wheat is increased proportionately; and (2) millers and other users of wheat are usually willing to pay more (a premium) for wheat of superior quality. In a cooperative system, the extra amount per bushel paid for wheat of superior quality goes back to the farmers who produced that wheat.

For similar reasons, producers of milk, fruits, and vegetables and other farm products also have formed and supported cooperatives.



Young farmers just starting out on the long road to farming success can find local cooperatives a big help in balancing the farm books, by increasing the price they get for what they sell and decreasing the costs of what they have to buy.

In what market does the farmer buy supplies? The ingredients of fertilizer come from many parts of the United States and from foreign countries. They are assembled and processed in large manufacturing plants, sold and shipped to wholesale dealers or to mixing plants, and resold and reshipped to local dealers such as the Central Supply Company or the Our Community Cooperative Warehouse.

In Florida, there is a phosphate mine which supplies many manufacturers of commercial fertilizer. If we call this phosphate mine the producers' market, the manufacturing and mixing plants are the wholesale market. It follows that the local dealer from whom the farmer buys fertilizer is a retailer. The farmer buys his supplies in the retail market.

Buying in the retail market, he, of course, has to pay the freight, the costs of manufacturing and distributing fertilizer, and all the other charges that accumulate from the time fertilizer leaves the mine as a raw product until it reaches the local supply store.

The farmer sells in the low-price market, he buys in the high-price market.

Supply co-ops are trying to get closer to the source of supplies. In order to do this, wholesale purchasing and manufacturing co-ops have been formed. They operate fertilizer plants, feed mills, petroleum blending plants, and many other wholesaling and manufacturing activities.

They do this (1) in order to perform at cost more of the job of obtaining supplies, and (2) to be able to control and standardize the quality of the supplies they secure for their members.

Other reasons for forming a co-op. There are other reasons why farmers have organized and continue to support cooperatives. Many of these are local reasons, and they can be discovered by talking to members of the co-ops located in Ourtown, particularly the older members who took an active part in the organization of some of these co-ops.

References: Knapp, Joseph G. Using Your Purchasing Association. Farm Credit Administration Circular E-11. 13 pp. Washington, D. C. 1939. Power, R. A. The Cooperative Primer. 102 pp. Viroqua, Wisc., The Author. 1939. Benefits of farm marketing cooperatives, pp. 61-66. Stitts, Tom G. Forming Farmers' Cooperatives. Farm Credit Administration Circular E-19. 13 pp. Washington, D. C. 1939.

Project 1: Reasons for organizing our community co-ops,

1. Ask farmers who took part in the organization of one or more co-ops why they did so; what they expected to accomplish.

2. Get the opinions of present members, directors, and managers.

3. Compile any information that is available about local farm prices, costs of marketing as a percentage of prices paid farmers, cost and quality of farm supplies, and margins of local dealers before and after the co-ops were formed.

Project 2: Determine the extent to which co-ops in Our Community have justified the reasons given for their organization and the extent to which they have failed to accomplish what their founders expected.

1. Get the opinions of members, directors, and managers as to results obtained and compare these with the reasons given for organization.

2. Compile from the records and reports of the co-ops (a) savings obtained for members each year, (b) amounts paid to members as patronage refunds, and (c) members' equities in the cooperatives.

3. To what extent is the supply co-op responsible for improvements in the quality of supplies bought by farmers?

4. Have production and net returns to farmers for the principal products handled by co-ops in Our Community increased or decreased in the last 10 years?

5. Classify the main reasons for failure to provide services expected, such as:

(a) Lack of support by members,
(b) Small volume of business,
(c) Poor management,
(d) Lack of adequate finances,
(e) Changes in farming practices,
(f) Others.

6. What should be done to meet the expectations of the founders?

Project 3: Services co-ops in Our Community have performed or results obtained that their founders did not anticipate.

1. List the services performed by the co-ops the first two years they operated.

2. List the services added since that time.

3. To what extent have the added services been of value to members? To the community?

4. Have the co-ops added services, or obtained advantages for their members by joining or affiliating with district-wide or national cooperatives? If so, describe the affiliation and its advantages.

CHAPTER IV

HOW CO-OPS START

Nearly all cooperatives were organized by farmers who believed that improvements could be made in the method of marketing their products or obtaining farm supplies. Often they first tried to persuade existing non-cooperative agencies to make the improvements the farmers considered necessary.

The story of the Our Community Canning Cooperative illustrates what a group of farmers have to do when they set up a cooperative business.

South of Ourtown is a farming district well adapted to vegetable growing. Fruit is also grown, but this is not a specialized fruit district.

The market for these farmers was first mainly local stores. Then a packing shed was built by a man in the wholesale grocery business. A few years later a small canning plant was added.

The farmers were not satisfied with prices paid, either for vegetables shipped fresh or those canned. The dealer also was dissatisfied. He complained that he never knew in advance what quality of vegetables would be offered him. At times he would have more than he could handle. At other times the farmers would sell to itinerant trucker-buyers, and the dealer's plant and workers would be idle.

After 3 or 4 years of this mutually unsatisfactory experience, the dealer offered to sell his business to the farmers. The offer was was discussed in the community for several weeks until the dealer announced that he would not operate the canning plant the following season. Then several farmers asked the county agent to call a meeting of the group at his office. They met one Saturday afternoon and appointed a committee of five to study the possibilities of forming a cooperative and buying the dealer's business.

Preliminary study. Neil Jordan, later president of the canning co-op, was chairman of this committee. He believed the committee should plan its study, so he wrote down several questions which the committee should be able to answer at the next meeting of the group. These questions were:

1. Why do we need a cooperative?

2. How many farmers will join and what is the size of their crops?

3. Where and how will the co-op sell our products?

4. What buildings and machinery will we need?

5. Should we buy the canning plant offered us and is the price reasonable?

6. How much money will we need for buildings and equipment? How much can we raise ourselves? Where and how can we borrow the balance?

7. How much money will we need for working capital; that is, to pay wages, buy cans, crates, and other supplies? Where and how can we get it?

8. What will it cost us to run the co-op? How much a bushel will we have to pay for canning and selling canned vegetables?

In this case the committee was able to show that there was a need for the co-op. Fifty farmers agreed to become members and to plant sufficient acreage to keep the canning plant in operation during the entire season.

The group also agreed to pay into the co-op about 40 percent of the cost of the plant and preliminary arrangements were made to borrow the balance required. Since the report of the committee showed that the cost of operating the co-op would probably be less a bushel than they had paid previously, the group voted to organize the co-op. Members of the committee which made the study were selected to act as incorporators.

What is a corporation? All States have laws providing for the formation of corporations. **A corporation** has been defined as "an articicial person created by law." It is distinct from its stockholders or directors. These may change completely and the corporation continue to exist.

Unpacking a cooperative order of 191 fruit trees - sent for by the Stedman chapter, Cumberland County, N. C., of the Future Farmers of America. The total order cost $115, about half the retail price on small individual orders. Thus the 15 families of the community who planted these trees get first-hand knowledge of how cooperative buying can help. The Stedman chapter has planted in all around 1,000 fruit trees in the community in the past 7 years. The chapter members, under the supervision of the vocational teacher of agriculture, take full responsibility for making up the orders, collecting the money, placing the orders, delivering the trees, setting them out, and seeing that good cultural practices are followed.

A corporation acts through its agents or officers who have been authorized to act by its board of directors. It can buy and sell property, enter into contracts, incur debts, and in fact can carry on business just as an individual farmer or merchant might do.

A non-cooperative corporation is owned by its stockholders who as a rule receive <u>stock certificates</u> as evidence of their ownership. The unit of ownership is called a "share." The number of shares which the corporation may issue is authorized when it is incorporated, and one stockholder may own one, 100, or any number of shares of a corporation up to the total number authorized.

How is a cooperative incorporated? An incorporated cooperative is also a corporation. Most cooperatives are incorporated under special State laws providing solely for the incorporation of cooperative associations. These laws contain provisions that are peculiarly adapted to the formation of cooperatives.

For example, it is usually provided that only farmers can be voting members or stockholders of organizations incorporated under these laws. Common (voting) stock cannot be sold or transferred to any person other than a farmer. The interest or dividends that can be paid on stock are limited, and usually provisions are included for the distribution of savings according to patronage. Farmers' cooperatives are also formed without capital stock.

When the Our Community Canning Cooperative was incorporated, Neil Jordan and the other members of the committee had prepared a paper called articles of incorporation. This paper gave the name of the cooperative, the purpose for which it was to be formed, and its powers. The number of directors and the co-op's principal place of business (Ourtown) were included also in the articles of incorporation. The articles of incorporation were signed by all the incorporators, acknowledged, and filed with the secretary of State at the State capital.

When the articles of incorporation were approved, the incorporators received a certified copy bearing the seal of the State. Our Community Canning Cooperative came into existence on the day its articles of incorporation were approved.

The directors named in the articles of incorporation and the incorporators as the charter members of the co-op, adopted the by-laws. The by-laws set forth the duties and functions of the directors and manager, provided for the election of a president and other officers, the method of financing the co-op, and other matters.

By-laws are something like the blueprint followed in building a factory or an automobile. They set forth the general plan which the directors and management must follow in carrying on the business. By-laws, however, must not contain provisions in conflict with the articles of incorporation, and articles of incorporacion in turn can contain only provisions authorized by the law under which the co-op is incorporated.

The board of directors met when the members' meeting adjourned, and elected as president, Neil Jordan, who was one of the seven directors. They also elected a vice-president and a secretary-treasurer, and set about the job of selecting a manager.

The Our Community Canning Cooperative was launched in business.

References: Sanders, S. D. Organizing a Farmers' Cooperative. Farm Credit Administration Circular C-108, rev. 44 pp. Washington, D. C. 1945. Stout, W. B. Problems of Cooperative Organizations. Prepared for the Cooperative Short Course held at Lake Carl Blackwell, Stillwater, Okla, August 9-16, 1941. U. S. Extension Service Circular 372, 36 pp. Processed. Washington, D. C. 1941. Organization problems, pp. 2-7.

U. S. Farm Credit Administration. Loans to Farmers' Cooperatives. Farm Credit Administration Circular 6, rev. 7pp. Washington, D.C. 1941. Describes the three classes of loans made to farmers' cooperatives, interest rates, repayment provisions, eligibility, credit standards, etc. Vennes, L. A. How to Start a Marketing Cooperative. Kentucky Agricultural College Extension Leaflet 13. 5 pp. Lexington, Ky. 1943.

Project 1: Study the State law authorizing the incorporation of a marketing or purchasing cooperative.

1. What is the name of the law?

2. When was it passed?

3. Who can incorporate under this law?

4. For what purposes can they incorporate?

5. Under this law what provision must be included in the articles of incorporation (or articles of association)?

6. What is required to be included in the by-laws under this law?

7. With what State officer must articles of incorporation be filed?

8. What is the charge for incorporation?

9. Outline other provisions of the law.

Project 2: Incorporations of co-ops in Our Community.

1. Are all co-ops in Ourtown incorporated?

2. Why are they incorporated? Why not?

3. Under what law are they incorporated?

4. Make a summary of their articles of incorporation and by-laws.

5. In what respect are by-laws of Our Community co-ops alike? How do they differ? What are the reasons for differences?

CHAPTER V

SOURCES AND USES OF CO-OP CAPITAL

Capital is needed to run any business. Part of a co-op's capital is current assets, money and items which can be quickly converted into money such as accounts receivable, notes due in less than one year, and supplies on hand. Another part is fixed assets - land, buildings, etc. - and other long-term assets such as investments.

Where does the money come from that enables a co-op to buy buildings, machinery and supplies and pay the wages of employees? How is it used? How is the share of each member recorded and how is each member's investment kept approximately in proportion to the volume of business he transacts through his co-op?

Sources of co-op capital. Estimating the amount of capital needed is an important step in setting up a new co-op.

When, for example, Our Community Canning Cooperative was organized, (Chapter IV), it was necessary to determine first the amount needed to but the canning plant; and second the amount required for working capital - that is, to pay for supplies, power, labor, and other expenses that accumulate every day the plant is operating.

The members of the co-op realized that the cost of running a cannery is high. It was found that the cost of canning vegetables would be $1.50 a case, or about $1 for each bushel delivered to the plant.

The cost of the plant and equipment was $25,000. Since it was estimated that 60,000 bushels would be canned the first year, $60,000 would be required to pay operating expenses. The directors estimated that $25,000 would be needed up to the time they would begin to receive payment for canned vegetables sold.

The co-op, therefore, had to have a total capital of $50,000 to start in business. Though this was more than the amount required by the average local co-op, the members believed that the investment would be worthwhile and that they would be able to raise the money needed.

Banks for cooperatives can lend up to 60 percent of the value of cooperative plants and facilities. Since the plant and equipment had an appraised value of $25,000, the board of directors were able to obtain a "facility" loan of $15,000 from the district bank for cooperatives.

This loan they agreed to repay in eight annual installments of $1,875 each.

The directors also arranged for a loan of $20,000 for working capital to be completely repaid when the pack of the current season was sold. As a condition of this loan it was agreed that members would invest an additional $5,000 in the co-op to make up the total amount required.

The bank agreed to advance $5,000 to the co-op immediately and the remaining $15,000 as it was needed.

Members of the co-op then were obliged to make an immediate investment of $15,000 - $10,000 to make up the total needed to buy the plant and $5,000 for working capital.

A total of 75 farmers had become members of the co-op. A survey made before they organized showed that they would procure at least 60,000 bushels of vegetables suitable for canning, an average of 800 bushels per member.

An investment of 25 cents a bushel was required, therefore, from each member. A farmer growing 400 bushels would invest $100, a farmer producing 800 bushels would invest $200, and so on.

Our Community Canning Cooperative began business with a capital of $35,000, of which $15,000 was invested by members and $20,000 was borrowed.

The manager prepared a brief statement for the members which showed the financial condition of the co-op on the day it began business. This was as follows:

BALANCE SHEET OF OUR COMMUNITY CANNING COOPERATIVE
AT THE BEGINNING OF BUSINESS

ASSETS *(What we own)*	
Curre t assets:	
Cash	$10,000
Fixed assets:	
Land	2,000
Building	15,000
Machinery	8,000
Total assets	$35,000
LIABILITIES *(What we owe)*	
Current liabilities:	
Working capital advance	$5,000
First installment, mortgage	1,875
Long-term liabilities:	
Deferred installments, mortgage	13,125
Total liabilities	$20,000
MEMBERS' EQUITY *(What we own less what we owe)*	
Members' investments	15,000
Total liabilities and members' equity	$35,000

Our Community Canning Cooperative, if it was to be a success, had to obtain from the sale of canned vegetables sufficient money to pay operating expenses, pay the installment of $1,875 on the mortgage loan, and return to members a satisfactory amount for the vegetables they delivered to the co-op.

In order to make certain that expenses would be met, the directors decided to retain from the proceeds of sales $1.10 for every bushel of vegetables received by the plant, instead of the $1 a bushel estimated as the actual expense. They also decided to withhold an additional 3½ cents a bushel solely for the purpose of paying the installment due on the mortgage. It was agreed, however, that if savings from the $1.10 a bushel retained for operating expenses amounted to 5 cents a bushel or more, this 3½ cents a bushel would be returned to the members in cash.

Up to the time it began business, Our Community Canning Cooperative obtained its capital from two sources - from the members (investments), and from the bank (borrowings).

As the season progressed, capital began to accumulate from the operations of the business and the savings which the co-op was able to make.

Results at the end of the year show how this additional capital was obtained.

The co-op received 70,000 bushels of vegetables instead of the 60,000 bushels estimated. On account of the increased volume, operating expense was 95 cents per bushel instead of the $1.10 retained. The 3½ cents retained to pay the mortgage installment due was accordingly returned to members in cash and need not be considered in calculating the increase in capital obtained from savings which, as the by-laws required, had to be allocated to members in proportion to their patronage.

Savings of 15 cents a bushel effected by the co-op totaled $10,500. The capital of the co-op was increased by that amount. From these savings the first installment of the mortgage loan, $1,875, was paid.

In the accounting records of the co-op, the $10,500 was distributed as follows: 5 cents a bushel, or $3,500 to a "reserve for contingencies," and 10 cents a bushel, or $7,000, to an account called "savings allocated to members."

The financial statement which the manager prepared for the second annual meeting of the Our Community Canning Cooperative was somewhat more complicated than the first.

In the first place, although it had made settlement with its members, the co-op had not been paid for all the canned goods it has shipped. Consequently, $3,500 was due from its customers (accounts receivable). It had also bought more cans, crates, and other supplies than were used.

These supplies were carried on the books at cost, $4,500 (inventories). The current assets of the co-op, therefore, (including $8,175 in the bank - "cash") totaled $16,175.

Machinery wears out and buildings finally have to be replaced. The directors realized that it was good business to charge off a part of the cost of the plant each year. Accordingly, they agreed that 5 percent of the cost of the building and 10 percent of the cost of the machinery would be "written off" each year as depreciation and charged to operating expenses. Consequently, the building was valued in the financial statement at $14,250 and the machinery at $7,200.

BALANCE SHEET OF OUR COMMUNITY CANNING COOPERATIVE
AT THE END OF THE FIRST YEAR

ASSETS *(What we own)*		
Current assets:		
Cash		$8,175
Accounts receivable		3,500
Inventories (supplies)		4,500
Total current assets		$16,175
Fixed assets:		
Land		2,000
Building	$15,000	
Less: depreciation	750	14,250
Machinery	8,000	
Less: depreciation	800	7,200
Total fixed assets		$23,450
Total assets		$39,625
LIABILITIES *(What we owe)*		
Current liabilities:		
Accounts payable		$1,000
Second installment, mortgage		1,875
Total current liabilities		$2,875
Long-term liabilities:		
Deferred installments, mortgage		$11,250
Total liabilities		$14,125
MEMBERS' EQUITY *(What we own less what we owe)*		
Reserve for contingencies		3,500
Members' investments		15,000
Savings allocated to members		7,000
Total members' equity		$25,500
Total liabilities and members' equity		$39,625

The co-op had miscellaneous "accounts payable" totaling $1,000 at the time the statement was prepared, and also had transferred to current liabilities the installment on the mortgage due at the end of the second year. The members' equity, including the reserve for contingencies, was $25,500, compared with $15,000 at the beginning of the year.

At the end of the year, then, the co-op had capital obtained from three sources: from borrowings, $13,125; from members' investments, $15,000; from savings allocated to members, including the reserve, $10,500; total, $38,625.

Since the working capital loan obtained from the bank was entirely repaid before the end of the year, the financial statement of the co-op was as shown on page 22.

The members of Our Community Canning Cooperative greatly increased its financial strength during its first year. The members saw from this report that the co-op would have to borrow only $10,000 to $12,000 for working capital the second year unless its business increased considerably. If the second year should be as successful as the first, they would be able to pay off the mortgage more rapidly than they first planned. On the other hand, if on account of weather conditions or for other reasons members should produce much less than during the first year, the co-op would be able to continue in spite of any probable loss.

Uses of co-op capital. The capital of a co-op is used to buy or construct plants, warehouses, and other necessary buildings; to buy machinery; to meet operating expenses; and to set up reserves for the purposes of meeting losses that may occur in the operation of the business.

Other uses may be made of a co-op's capital. For example, a local co-op may invest in the capital of a central marketing or purchasing co-op. Such an investment is made in the same way and for the same purpose as a farmer invests in his local cooperative.

The reserve set up by the Our Community Canning Cooperative was as general reserve "for contingencies" which means for anything that may cause the association to lose money some time in the future. Often special reserves are created. For example, near the end of World War II, many co-ops began to establish "reserves for postwar adjustments."

Adjusting members' investments. When the Our Community Canning Cooperative began business, the investment of each member was in proportion to the number of bushels of vegetables he expected to deliver the first year. At the end of the year, his share of the savings obtained was in proportion to the number of bushels he actually delivered.

The portion placed in reserves was allocated to each member on the books of the association. If a member delivered 600 bushels, he was credited with 5 cents multiplied by 600 or $30 as his share of the reserve. If there should be a loss the following year equal to 20 percent of the reserve, the reserve credit of this member, and all other members, would be reduced 20 percent. His share in the reserve would then be $6 less, or $24.

For "savings allocated to members," which amounted to 10 cents a bushel, each member received a cdrtificate, similar to a stock certificate, which the directors of Our Community Canning Cooperative called a "certificate of equity." A member delivering 600 bushels received a certificate of equity for $60 as evidence of his share of "savings allocated to members." He also had a similar certificate as evidence of his original investment in the capital of the co-op.

These certificates did not bear interest and were to be retired in the order in which issued. In other words, members' original investments would be returned to them first. Later, certificates of equity issued for savings obtained the first year would be retired.

This method of financing has been adopted by many co-ops, mainly since 1930. It is often called the "revolving capital plan," or the "revolving fund" method of financing.

The purpose of the revolving capital plan is to keep investments in the capital of a co-op in the hands of active members. From year to year the membership of a co-op changes. Older farmers retire and and young men take their places. It is essential that a retiring member's investment should be paid to him or his estate and that the new member should furnish his share of the co-op's capital.

Here is the way the revolving capital plan works. John Doe was one of the original members of Our Community Canning Cooperative and 4 years later sold his farm to Richard Roe who also became a member. The co-op was able to begin repaying members' investments by the end of the fifth year.

	JOHN DOE				RICHARD ROE			
	INVESTMENT AT BEGINNING OF YEAR	SAVINGS ALLOCATED 10¢ A BU. 800 BUSHELS	CAPITAL REVOLVED (REPAID) TO MEMBER	INVESTMENT AT END OF YEAR	INVESTMENT AT BEGINNING OF YEAR	SAVINGS ALLOCATED 10¢ A BU. 800 TO 1,200 BUS.	CAPITAL REVOLVED (REPAID) TO MEMBER	INVESTMENT AT END OF YEAR
1st year	$200	$80	-	$280	-	-	-	-
2nd year	280	80	-	360	-	-	-	-
3rd year	360	80	-	440	-	-	-	-
4th year	440	80	-	520	-	-	-	-
5th year	520	-	$80	440	$200	$80	-	$280
6th year	440	-	80	360	280	90	-	370
7th year	360	-	80	280	370	100	-	470
8th year	280	-	80	200	470	110	-	580
9th year	200	-	80	120	580	120	$80	620
10th year	120	-	80	40	620	120	90	650
11th year	40	-	40	-	650	120	100	670
12th year	-	-	-	-	670	90	110	650

This table only indicates how a retiring member's investment is repaid. The directors have authority in special cases to repay an ex-member's investment in full or in two or three annual installments.

Richard Roe's production was increased from 800 to 1,200 bushels and his investment in the co-op increased proportionately. When his production dropped back to 900 bushels in the 12th year, his investment decreased. Repayments that year were greater than the savings allocated to him.

References: Bakken, Henry H., and Schaars, Marvin A. The Economics of Cooperative Marketing. 583 pp. McGraw-Hill Book Co., Inc, New York. 1937. Financing cooperative marketing associations, pp. 350-429. Stokdyk, E. A. Financing Farmers' Cooperatives. Farm Credit Administration Circular E-20. 13 pp. Washington, D. C. 1939.

Project 1: Select another Our Community Co-op and prepare a statement showing the total investment in plant and equipment, the percentage borrowed, and percentage owned by the members.

1. What plans are followed in repaying the amount borrowed for plant and equipment?

2. How was the member's share in the investment acquired?

3. Is each member's investment in proportion to the use he makes of the co-op?

Project 2: Prepare a statement showing the amount required and the uses made of working capital.

1. How much is borrowed for working capital?

2. From whom and on what terms is it borrowed?

3. How and when is it repaid?

Project 3: Describe the reserve set up by the co-op.

1. Why was a reserve established?

2. How is the reserve allocated to members?

3. Has any portion been returned to members?

CHAPTER VI

TYPES OF CO-OPS AND THEIR SERVICES

Farmers in Our Community see their local co-ops every few days. But there are many large co-ops with which they come in contact less frequently. The territory over which these large-scale cooperatives operate may include an entire State, or all or part of several States.

Regional Co-ops. Farmers' co-ops whose operations extend over a number of communities are generally called regional cooperatives. A few whose activities cover all parts of the United States where the products they handle are produced commercially are known as national cooperatives. Others operating in city (terminal) markets and selling products shipped to market by their members are usually called cooperative sales agencies. The livestock commission associations located in several large livestock markets are the most numerous group of cooperative sales agencies.

Form of incorporation. As has been mentioned, most co-ops are incorporated. Associations may be incorporated with or without capital stock. The two classes are generally called stock and non-stock co-ops.

A stock co-op, like any other corporation, divides its capital into shares, each valued as a rule at from $10 to $100. To become a member, a farmer must buy at least one share of common (voting) stock.

Unlike the ordinary corporation, however, the common stock of a co-op should be held only by active members, dividends paid limited, and voting rights based on membership rather than stock ownership.

In a non-stock co-op, a farmer becomes a member by agreeing to the by-laws or signing a membership contract and paying a membership fee which is commonly $5 to $10. For any additional money he invests, the association gives him a certificate of equity which is evidence of his equity in the co-op.

Plan of organization. Large-scale cooperatives are classified also according to their plan of organization. The distinction made here is more fundamental than the size of the co-op or the extent of the area it serves. It represents fundamental differences in attitudes and opinions among farmers which may be compared to the conflicting opinions of men who advocate "States' rights" and those who believe in a strong central government.

On the basis of the form of organization, large-scale cooperatives are classified as federated and centralized. A federated co-op is set up by two or more local co-ops. The locals may form a federation to market their products, to manufacture supplies, to make wholesale purchases, or for other purposes. Each local as a rule elects one or more directors to the board of the federation. They delegate to the federation the services it can best perform and retain in the local community services such as grading and packing fruit or retail distribution of supplies.

The farmer is a member of the local co-op. The local in turn is a member of the federation.

The members of a centralized cooperative are individual farmers. A centralized co-op is in effect an overgrown local. Some of our largest co-ops, however, are of this type.

Generally, the territory served by a centralized co-op is divided into districts as a State is divided into Congressional districts, One or more directors are elected by the members in each district. If the membership is very large, each district may elect delegates to the annual meeting and in some cases directors are elected from the group of delegates.

Community plants, warehouses, and other buildings are owned and managed by the centralized co-op. The local communmty may select an advisory committee, or "advisory directors" for the local plant, but the "branch manager" is an employee of the centralized co-op and is responsible to the general manager or the head of a department in the main office.

At present, several centralized associations are becoming "hybrids"; that is, they are partly federated and partly the centralized type. Frequently, members of a centralized co-op will acquire ownership of a local plant, elect their own board of directors, and become responsible for its operation. At times a local association enters into a contract with the centralized co-op under which the latter agrees to manage the local plant; in other cases the local board employs a manager and assumes full responsibility for the business.

Members of the Future Farmers of America chapter at Masontown, W. Va., unloading a carload of northern grown seed potatoes purchased cooperatively by the chapter for use in their productive enterprise programs.

Advantabes of federated and centralized cooperatives. The main advantage of the federated type of co-op is that farmers retain direct control of their local business. As a result members are likely to be reasonably well-informed and to participate more directly in the determination of policies. Thus the federation may enjoy a greater degree of membership support, interest, and participation than the centralized co-op.

The centralized cooperative often has certain business advantages. In marketing, central control over grades and packing practices tends to standardize the product handled, which in turn makes it more acceptable to the co-op's customers. Systems of accounting in the locals can be made uniform, money can often be borrowed on more favorable terms, and some economies in transportation and management costs may be possible.

Services of cooperatives. In Our Community, as in many others, co-ops carry on many kinds of farm business. We sell dairy products, vegetables, and livestock. We buy supplies cooperatively. We operate a farmer's mutual insurance company and credit cooperatives which make short-time loans for production or long-term loans to buy land or make permanent improvements.

In farm communities throughout the United States, there are farmers' cooperatives for marketing practically every crop produced. In addition farmers' co-ops are engaged in mixing and manufacturing feed, fertilizer, oil, and gasoline. They are manufacturing farm machinery, operating frozen food locker plants, cotton gins, and oil mills. Fruits and vegetables, poultry, livestock, sugar cane, milk, and other products are processed in cooperatively owned plants.

Farmers also operate co-ops to provide themselves with special services. Irrigation associations, mutual telephone companies, co-ops to provide medical and hospital care, credit cooperatives, and cooperative cotton gins are examples. A recent type of service association is the REA co-ops set up to bring electric power to farms.

The co-ops that serve Our Community and other farm communities, do not follow any one pattern. Some are large; many are small. Some serve only a local area, and others are spread over several States. Their size, the products they handle, the services they perform, and the ideas of their members all tend to create variations in form of organization and methods of operation. They are alike, however, in that they are owned and controlled by their members and operated for the mutual benefit of the member-patrons.

References: Coady, M. M. Masters of Their Own Destiny. The story of the Antigonish movement of adult education through economic cooperation. 170 pp. Harper & Bros. New York. 1939. Cooperative marketing movements, pp. 89-109. Fetrow, W. W., and Elsworth, R. H. Agricultural Cooperation in the United States. Farm Credit Administration Bulletin 54. 209 pp. Washington, D. C. 1947. Mann, L. B. Types of cooperatives in the United States. Outline of lectures for use in Cooperative

Short Course in Stillwater, Okla., August 8-15, 1942. 20 pp. Processed. Farm Credit Administration, Washington, D. C. 1942. Power, R. A. The Cooperative Primer. 102 pp. Viroqua, Wis. The Author. 1939. Cooperative services, pp. 41-45.

Project 1: Services performed by Our Community Co-ops.

Has the type of service had an influence on the co-op's plan of organization?

How many of these co-ops perform more than one service; for example, marketing and purchasing?

Are any considering undertaking additional services for their members?

What, if any, advantages do the members and management see in the performance of more than one service?

Project 2: Co-ops in Our Community that are members of a federation.

What service does the federation perform? What service is retained by local?

Is Our Community co-op represented on the federation's board of directors?

How are directors of the federation elected?

Are members of the local co-op informed regarding the policies and activities of the federation?

Project 3: Membership in centralized cooperatives.

Are any Our Community farmers members of a centralized co-op? If so, why did they join?

What services do they get that could not be performed by a local co-op?

Are they fammliar with the work and purposes of the centralized association?

Do they hold local meetings?

How do they elect directors?

How do they get information about the centralized co-op?

CHAPTER VII

COMMON MISTAKES OF CO-OPS

Farmers' co-ops are not always successful. Many have gone out of business for one reason or another. In fact, some people doubted that Our Community Cooperative Warehouse would succeed when it first started. This doubt came from the experience of an earlier supply co-op which failed, mainly for two reasons: first, because the directors insisted that all savings should be returned to members in cash, and second, because the manager gave credit to some members who were unable to pay their bills.

Community factors. The first mistakes are often made before a co-op is organized. There may be no need for the proposed co-op, no service it can provide any better or more economically than existing agencies. The product the co-op plans to market may not be produced in a sufficient quantity to support a marketing agency. Also, it sometimes happens that a small group set up a co-op without finding out what other farmers in the community think of the plan. As a result, when the co-op starts in business they find their neighbors uninterested, mainly because they were not consulted and made partners in the program from the beginning.

Mistakes in organization. The older co-ops, incorporated under the "general corporation law" of the State, made some mistakes in organization that were often unavoidable. In some cases, each member was allowed one vote for each share of stock he owned. In addition, it was not possible - or no provision was made - to prevent the transfer of voting stock to nonmembers. Frequently, therefore, stock ownership became concentrated in the hands of a few men, and the business was no longer cooperative.

When the organization of a co-op is proposed, there are always a few enthusiastic people who believe it is the ansser to all farm problems. Often, under the spell of this enthusiasm, a co-op is "oversold." Too much is expected, and the reaction when these expectations are not realized has resulted in the death of many co-ops that could have performed a useful service. Sometimes so much is expected from a proposed co-op that care is not taken to see that it is adequately financed, or to analyze closely the investment required or the probable volume of business in relation to operating costs.

The organization of a new co-op should be a community enterprise in which all prospective members should be asked to participate. The problems to be met, as well as the advantages of organization, should be thoroughly understood, and necessary investments and operating expenses carefully calculated. Failure to take these steps has often been disastrous.

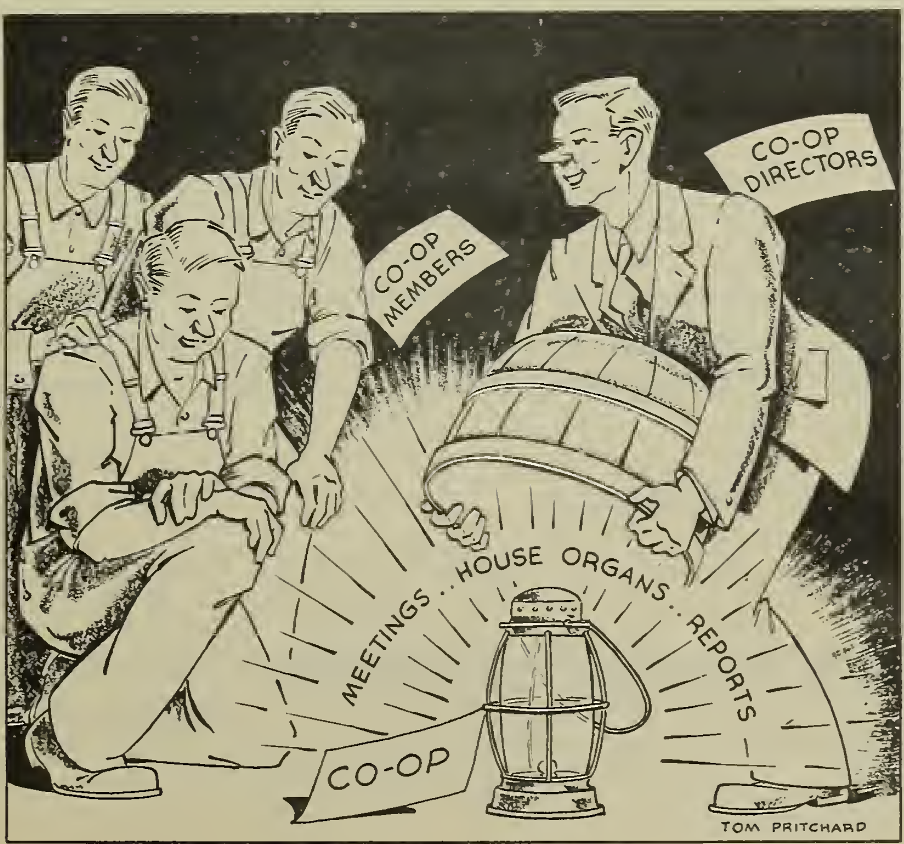
Mistakes of management. Managers of co-ops, of course, are liable to make the same mistakes as are made by managers of other types of business. Unwise extension of credit, failure to operate economically, and

lack of judgment in marketing or in buying farm supplies are all factors which may lead to failure.

One common mistake of co-ops, for which the board of directors and manager must divide the blame, is failure to set up adequate reserves to take care of losses the co-op may sustain in the future. Another is failure to charge to operating expenses each year a portion of the cost of the co-op plant and machinery. Buildings and machinery wear out, and provisions must be made from year to year for their eventual replacement.

The job of a co-op manager, however, offers opportunities for other mistakes growing out of the patron-owner status of the members. Many managers whose previous experience has been in noncooperative business fail to appreciate the dual interest of members in the co-ops, and so fail to keep them fully informed about the business. Among the devices managers can use to tell members what is going on are house organs or membership meetings where business affairs are dicussed.

Some managers are likely to keep hidden any losses they may experience. For example, Our Community Canning Cooperative a few years ago sold canned vegetables to a firm which failed before the invoice was paid. The loss to the co-op was about $3,000. The co-op directors and manager decided to say nothing about this loss until the end of the season because they would then be able to show substantial savings to members in spite of the loss. It was a secret that could not be kept. When rumor had magnified the loss to more than 10 times its actual size and some members began to believe the co-op was actually bankrupt, it was decided to call a special membership meeting. The members were told the facts and the reason for the loss. Dissatisfaction that threatened to break up the co-op immediately died down and the directors and manager had learned another lesson in cooperation: "Never try to hide bad news."



Some co-ops become "one-man" organizations. In such cases the manager, or possibly the president, is a benevolent dictator; the members know little about the business and take no part in determining policies. A co-op under one-man control is likely to go out of business when the man in charge dies or retires. The members have been deprived of the experience in running a cooperative business they should have

gained over the years. Consequently, there is no one to take the place of the indispensable one man. Strictly speaking, a business of this kind cannot be called cooperative - the "working together" is lacking.

Members' mistakes. The chief mistakes members make are due to a natural human tendency to let someone else do the work and make the decisions. The same kind of mistakes are made by citizens in a democracy and small stockholders of a large corporation.

In brief, members' most common mistakes can be classified as failure to elect the best men as directors, failure to inform themselves regarding the progress and problems of their co-op, a tendency to judge the co-op's success by short-time results rather than its long-time possibilities, and failure to attend meetings and make their wishes and opinions known to the directors and management. There may be added failure to appreciate that the co-op is their business and must be made strong financially and otherwise if it is to serve them well.

In a truly cooperative enterprise, the leadership required to make it a success must in the final analysis come from the members. If the members fail to meet the requirement of leadership, their cooperative is in danger.

Co-ops out of business. Many co-ops have gone out of business since the first Grange Societies were formed almost 80 years ago. Not all of these, however, can be classed as business failures. In fact, only about 10 percent of more than 14,000 co-ops out of business, for which some record is available, reported losses to creditors.

Other co-ops went out of business when they were merged to form a larger co-op. Some, like many livestock shipping associations, were discontinued because improved roads or changes in marketing practices made them unnecessary.

A large percentage of the co-ops out of business, however, shut down because they were forced to do so. Loss of members and loss of business were the principal causes. The late R. H. Elsworth, who for many years directed the compilation and analysis of the statistics of farmers' in the Farm Credit Administration, has given the following reasons why members drop away, volume of business declines, and co-ops are finally forced to close their doors:

1. Leadership neither able nor resourceful.

2. Management ineffective.

3. Members neither understood nor practiced cooperation.

4. Associations could not adjust to new conditions.

5. Membership rejuvenation neglected.

6. Cooperation discarded.

7. Promoter activity.

8. Unavoidable causes.

By "promoter activity," Mr. Elsworth meant the promotion of co-ops by machinery salesmen and others in order to sell machinery, land, or buildings to the organized farmers. Obviously there was a high percentage of failures among co-ops set up for reasons that did not include the need for an organization and the services it might provide for its members.

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Project: Why farmers' co-ops fail.

The failure of the supply co-op in Our Community has been mentioned. How could it have been prevented?

Get statements from former members and, if possible, from the officers and manager of a co-op that has gone out of business.

1. What was it set up to do?

2. What was the volume of business the last 3 years?

3. How long was it in existence?

4. Was it able to pay all its debts?

5. Did members lose any part of their investment?

6. Did the co-op fail to pay members for any products handled?

7. What was the main reason for its failure?

8. Who was chiefly to blame: (a) the members, (b) directors, (c) the manager, (d) unavoidable conditions?

9. Was a co-op formed later to perform the same service? If so, was it successful?

10. How many former members of the co-op out of business are now members of other co-ops?

11. What has been the effect of this co-op failure on other co-ops in the community?

12. Could the failure have been prevented? How?

CHAPTER VIII

HOW U. S. CO-OPS HAVE GROWN

Early Farmers' Co-ops. Cooperation is a tradition among farm people. in the United States. The first settlers helped one another to clear their land, build their houses, and plant and harvest their crops.

In Ourtown most people believe that co-ops, as we know them, have grown up in the last 25 years. But as early as 1810 farmers were undertaking experiments in carrying on business cooperatively. "Associated or cooperative dairying" was undertaken at Goshen, Conn., in that year, and a "cheese dairy" was established at South Trenton, N. Y., about the same time.

By 1860 a few cooperative cheese factories and farmers' grain elevators were established in various parts of the United States. A group of New York farmers jointly constructed a cheese factory in 1851. Another group built a plant for making butter at Campbell Hall, N. Y. in 1856.

Farmers in Wisconsin organized a cooperative grain elevator in 1857, and Illinois farmers a few years later developed a cooperative auction for the sale of hogs.

By 1867 there were more than 400 co-ops making butter and cheese. A farmers' purchasing association formed in 1863 was still operating in 1945. The first reported co-op for marketing fruit was organized in New Jersey in 1867 and continued until 1897.

Most of these early co-ops are now out of business. In practically all cases, however, they prepared the field for more modern co-ops which are in business today.

The members of the early co-ops were experimenters. Some of the plans they adopted were not satisfactory to farmers generally. For example, many permitted a member one vote for each share of stock he owned, following the established rule for non-cooperative corporations. As a result, there was a tendency for control to pass into the hands of a few men and the business then was no longer cooperative.

As these faults in organization were corrected and the need of good management became more generally recognized, farmers were able to build substantial co-ops on the experiences of the pioneers of 80 or 90 years earlier.

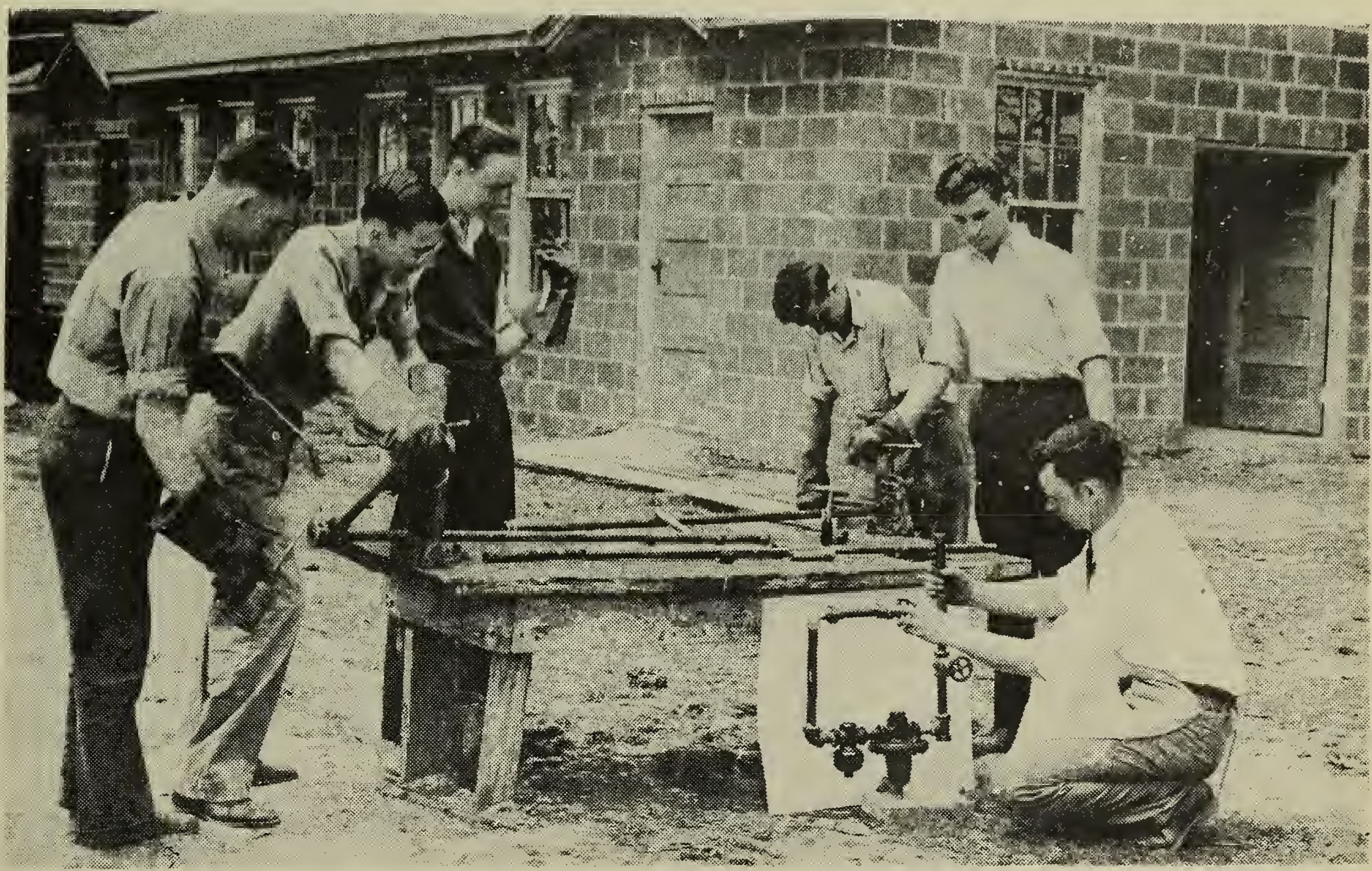
The Grange and Cooperation. The second period of cooperative development began in 1867 with the organization of the National Grange. The oldest of farmers' National organizations, it was first formed as a fraternal order. Its growth was slow until the founders realized that

local granges could be used to develop cooperative marketing and purchasing. Only 87 local granges were formed up to 1870, whereas by 1874 almost 12,000 had been organized.

County granges, which are now the Pomona Granges, were created in many States to carry on business activities for the local units. Many co-op stores were started which handled both home and farm supplies. Cooperative grain elevators, organized in 1872, sold wheat in domestic and foreign markets through a commission agent. This business was conducted cooperatively for more than 20 years.

A cooperative bank, which continued in business until 1895 when it was liquidated without loss to depositers or stockholders, was also formed in California about 1874. In the South, cotton was marketed on a large scale by State granges. The Mississippi State Grange for a time had its own representative in Liverpool.

Many of the marketing and purchasing co-ops formed by the Grange continued for more than 20 years. Some are still in existence. In addition the push given the cooperative idea by the Grange encouraged other groups of farmers to organize.



Group of Future Farmers of America boys from Herring High School, Sampson County, N. C. installing cannery equipment in front of the community cannery which operates on the school grounds. Funds for the cannery and the school farm shop extension were raised largely by citizens of the Herring Community - 116 patrons of the school contributed from $1 to $100 each, the County Board of Education appropriated $500 and the local P.T.A. $150, the F.F.A. boys donated $100, the local Home Demonstration Club $10, teachers of the school $70, and students other than the F.F.A. boys a total of $170. In addition, a co-op, the Clinton unit of the Farmers Cooperative Exchange contributed fees for treating 150 bushels of cotton seed for rural farmers to the cannery. By setting up this community cannery, producers get a better market for their products and the community as a whole benefits.

By 1890 there were about 1,000 active farmers' co-ops in the United States.

The Third Period. During the 30 years from 1890 to 1920, the number of farmers' marketing and purchasing co-ops increased to about 7,400. Some of the largest co-ops active today were formed during this period.

Livestock shipping associations increased rapidly. Farmers found that they could reduce the cost of getting livestock to market by shipping cooperatively. Also, they were able to ship carloads of hogs or cattle fairly uniform in weight and grade and get a higher price than buyers would pay for mixed lots.

Also, during this period, livestock producers and other farmers began to develop co-ops to represent them in the large city markets. Co-ops were organized to operate in important livestock markets such as Chicago and Kansas City. They sold livestock produced by their members direct to meat packers and other buyers. There were 41 of these co-ops, called "livestock commission associations," in business in 1947.

What is now the California Fruit Growers Exchange came into existence in 1895. This is now the largest fruit-co-op. Cooperatives for the marketing of wool, poultry and eggs, beans, and nuts were formed during this period.

Two general farm organizations, The Farmers' Educational and Cooperative Union of America and the American Society of Equity, were formed in 1902. Both contributed to the development of farmers' cooperatives.

After 1920. In 1919 another general farm organization was established - the American Farm Bureau Federation. The influence of the Farm Bureau from 1920 on resulted in the organization of many large-scale cooperatives most of which are still active.

About this time also large State-wide associations for marketing cotton, tobacco, and wheat were organized. These resulted from a widespread belief that farmers by controlling all or practically all of the product could also control the price at which their wheat and cotton was to be sold. These co-ops had a contract with their members running for 5 years or longer. Severe penalties were provided for the farmer who failed to live up to his contract.

Monopoly control by cooperatives didn't work; the big associations never succeeded in getting control of all the crop. Except temporarily with tobacco and dried fruit, the quantity handled by this group of co-ops remained below 50 percent. Farmers outside the associations were able to sell freely. Thus they could and did profit from higher prices brought about by the partial scarcity created by withholding from the market the commodities controlled by the big co-ops. As many of their members complained, they were "holding an umbrella over the non-members." Failure to accomplish the results expected, slowness in making

sales and payments to members, and often inexperienced and extravagant management helped this type of co-op to fail. A few were reorganized and are now operating successfully.

In 1925 there were about 12,000 farmers' marketing and purchasing co-ops in the United States. The total number of members was approximately 2 million and volume of business $2.5 billion. By 1946, the number of marketing and purchasing co-ops had declined to 10,150, but total membership had increased to more than 5 million and volume of business to an estimated total of $6 billion. See table 1.

Good roads and improved methods of transportation have made many small local co-ops unnecessary. For example, numbers of local livestock shipping associations disappeared and were replaced by large "concentration yards" serving several counties. Small local co-ops manufacturing butter gave way to large, centrally located cooperative creameries. So with an actual decline in the number of co-ops, the total membership is greater than in 1925-26 by more than 2 million.[1]

Table 1. - Farmers' marketing and purchasing associations: Number listed, estimated membership, and estimated business for specified periods

PERIOD	ASSOCIATIONS LISTED	ESTIMATED MEMBERS	ESTIMATED BUSINESS
	Number		*$1,000*
1915	5,424	651,186	635,839
1925-26	10,803	2,700,000	2,400,000
1927-28	11,400	3,000,000	2,300,000
1929-30	12,000	3,100,000	2,500,000
1930-31	11,950	3,000,000	2,400,000
1931-32	11,900	3,200,000	1,925,000
1932-33	11,000	3,000,000	1,340,000
1933-34	10,900	3,156,000	1,365,000
1934-35	10,700	3,280,000	1,530,000
1935-36	10,500	3,660,000	1,840,000
1936-37	10,743	3,270,000	2,196,000
1937-38	10,900	3,400,000	2,400,000
1938-39	10,700	3,300,000	2,100,000
1939-40	10,700	3,200,000	2,087,000
1940-41	10,600	3,400,000	2,280,000
1941-42	10,550	3,600,000	2,840,000
1942-43	10,450	3,850,000	3,780,000
1943-44	10,300	4,250,000	5,160,000
1944-45	10,150	4,505,000	5,645,000
1945-46	10,150	5,010,000	6,070,000

[1]The membership figures include duplications because many farmers are members of more than one cooperative.

References: Bakken, Henry H., and Schaars, Marvin A. The Economics of Cooperative Marketing. 583 pp. McGraw-Hill Book Co., Inc, New York. 1937. Development of cooperative marketing in the United States, pp. 46-77. Blankertz, Donald F. Marketing Cooperatives. 488 pp. Ronald Press Co., New York. 1940. The development of cooperation in the United States, pp. 72-98. Elsworth, R. H. The Story of Farmers' Cooperatives. Farm Credit Administration Circular E-23. 28 pp. Washington, D. C, 1945. Wanstall, Grace. Statistics of Farmers' Marketing and Purchasing Cooperatives, 1944-45. Farm Credit Administration Miscellaneous Report 108. 49 pp. Processed. Washington, D. C. 1947.

Project 1: History of the farmers' co-ops in Our Community.

1. Classify the co-ops according to the date each was organized.

2. Prepare a brief history of each, giving the reasons for organization, increases or decreases in number of members and volume of business, changes made in articles of incorporation and by-laws, new services undertaken and changes in the portion of the assets of the association the members own. (Subtract the value of what the co-op owes from the value of what it owns).

Project 2: The effect of age on Our Community co-ops.

1. Do members tend to lose interest as the co-op gets older?

2. Do the older or newer co-ops:
   (a) Have the larger number of members?
   (b) Handle the larger volume of business?
   (c) Have the better plants and equipment?

CHAPTER IX

WHAT COOPERATIVES HAVE CONTRIBUTED TO OUR COMMUNITY

In Our Community, we believe that farmers' cooperatives have benefited Ourtown and the county of which it is the trading center. These benefits cannot be measured exactly. Some people are inclined to overestimate and others to underestimate them. A large majority agree that there are definite benefits.

The benefits to members, and other farmers as well, are fairly obvious. After making allowances for the general improvements in agricultural conditions, there are a number of contributions Our Community co-ops have made.

Farm income increased. Our marketing co-ops have improved the quality of the products they handle. By returning market premiums for quality, they have encouraged farmers to improve production practices. The sweet cream butter produced by Our Community Creamery Association sells day after day for a higher price than the kind of butter produced by the old creamery which it replaced. Best of all it is the kind of butter the trade and consumers want. The co-op has an established demand for its product.

Our marketing co-ops also have reduced marketing costs, not only for their members, but for all farmers in the community. Because of co-op competition, marketing charges of dealers are lower than they were formerly. Short weight and unreasonable deductions for low-grade products and poor quality are unknown. The farmer who is not a member can thank the co-ops for bringing about conditions that give him an improved local market price for his crops and livestock.

Two of our marketing co-ops are members of cooperative marketing agencies - federations. The federation marketing dairy products, for example, controls a large part of the production in our part of the State. It has many customers who look to it for their supplies of butter, cheese, and other milk products. It employs expert salesmen who are constantly in touch with the market; they know when to sell freely and when to slow down. The large volume handled makes possible a low selling cost. The returns to members of Our Community Creamery Association are increased because of this saving and because of the high standing and bargaining ability of the federation.

Purchasing cooperatives also increase farm income by providing at cost the kind of supplies the farmer needs. Members of Our Community Cooperative Warehouse believe they have benefited in two ways: the cost of farm supplies has been reduced and the improved quality of seed, feed, and fertilizer has raised the quantity and quality of their crops and livestock products.

The co-op warehouse buys from a wholesale supply cooperative which manufactures feed and other supplies. Since these operations are performed at cost, the savings to members of our local supply co-op are substantial.

Our Community farmers have other co-ops that have helped to increase their farm income. Co-ops provide insurance, credit, telephone service, and electric power. Farmer borrowers now own our National Farm Loan Association which, with other similar long-term credit associations, owns the district Federal Land Bank. Farmers in Our Community also own 75 percent of the stock in our Production Credit Association which was set up in 1934 to lend money to farmers for the purpose of producing crops and livestock. The farmer-members of these associations have been able to obtain loans fitted to the needs of their farm operations at reduced interest cost and, at the same time, have built up a substantial ownership interest in their credit cooperatives.

Benefits to Ourtown. Our Community co-ops have benefited Ourtown. The increased income of farmers has created more trade for our businessmen and increased deposits in our local banks. The co-ops give employment to many people whose wages and salaries are spent in Ourtown. We know from our experience that anything that helps the farmers helps all of us.

As owners of businesses located in Ourtown, farmers and their families have an increased interest in town, civic, and social affairs. Many farmers are members of the Chamber of Commerce and the Service Clubs. Their interest in our schools and churches has been stimulated. They know more about the problems of local businessmen than they did formerly because of their experiences as owners and directors of local co-ops. People in Ourtown likewise have gained increased knowledge of country conditions and farmers' problems. As a result, both town and country people work together to make Our Community a good place to live. A cooperative, progressive spirit has developed.

Co-ops develop farmer leadership. We were all proud, and also surprised, when John Betterton was elected president of the large dairy marketing federation of which Our Community Creamery Association is a member. It seemed a big job for a local farmer to undertake. But he developed abilities that we never suspected he possessed and his influence as an agricultural leader has become Nationwide. We have learned also that John is not the only Our Community farmer who has thought about the needs of agriculture and has learned to express his ideas effectively. It is interesting that the majority of these men are or have been directors of Our Community co-ops.

All over the United States, where farmers' cooperatives exist, able farmer leaders are coming to the front. Their guidance and leadership make their cooperatives strong and improve conditions for farmers everywhere.

TWO TYPES OF AMERICAN BUSINESS ORGANIZATIONS

A NON-COOPERATIVE CORPORATION	A COOPERATIVE CORPORATION
1. Is a union of capital as an investment to earn a profit.	1. Is a union of persons to supply themselves with goods and services at cost.
2. Control by the individual is determined by the number of shares he holds.	2. A member usually has one vote and no more regardless of the number of shares he holds. In a few cases, voting is in proportion to patronage.
3. Net earnings or profits are the property of the stockholders.	3. Savings belong to the members and patrons.
4. Earnings are divided among the shareholders on the basis of the number of shares held.	4. Savings (patronage refunds) are returned to patrons in proportion to the amount of business transacted with the cooperative, usually after a limited return on capital is paid.
5. There is no limit to the amount paid as dividends on share capital.	5. Dividends on share capital are limited. Some cooperatives pay none.
6. The selling price is normally above the cost price and the surplus constitutes a trading profit.	6. The price which members receive for products or pay for goods and services at the time the transaction is made is usually the market price or cost, plus an estimated operating margin including a safety factor. This safety margin represents an underpayment in a marketing cooperative or an overcharge for goods and services.
7. Business is done for the express purpose of realizing the trading profit which becomes the property of the stockholders.	7. Members organize and conduct the business as a mutual service for themselves as individuals and not for the benefit of the cooperative as a corporation.

(Adapted from 'Brief Course of Study in Agricultural Cooperation' by J. K. Stern, The Pennsylvania State College, State College, Pa.)